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Germany's Model Stresses Execution Over Innovation

By BEN ROONEY

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BERLIN—Henning Wehn has carved a niche for himself as Germany's comedy ambassador to the U.K. On a recent TV program when asked what was the worst thing to overhear about yourself, playing to the German stereotype he replied "he isn't all that efficient."

The Wall Street Journal Deutschland recently held a tech cafe event in the heart of the capital's startup district, Mitte, and much of the talk around the tables of the Kaffeemitte was on German entrepreneurship. The general consensus was that while Germany may not culturally be the most entrepreneurial country, the emphasis on execution was a national strength.

It should come as no surprise, then, that a particularly German way of building startups is emerging from the capital city; companies that are less focused on product innovation, and instead hone their execution.

Stepping away from the accelerator model (find existing exciting startups that are doing innovative things, provide them with mentors and a working space in return for equity), Berlin appears to be favoring the incubator (create companies that target specific and identified markets, hire smart people to run with the idea and provide them with the tools to execute).

Leading the way is the powerhouse of the German online economy, Rocket Internet. Founded by the media-shy Samwer brothers, it takes a proven business model, clones it and then just out-executes its competitors. According to the company's youthful managing director, Alexander Kudlich, "We are able to launch within 3 1/2 weeks—from decision to launching."

"It's only about operationally doing every little thing right and faster and better than the others."

It can do this by having built a suite of off-the-shelf tools and back-end structures that, for most of its new companies at least, it can deploy in a pick-and-mix way. While the competitors are building theirs from scratch, Rocket is out selling.

The jewel in Rocket's crown is online fashion retailer Zalando, a clone of Zappos, that launched in 2008 and is now doing €1.15 billion ($1.5 billion) in revenue.

With an irony not lost on Berlin's startup community, Rocket itself is being cloned, at least in part. Project A Ventures, founded a year ago by Florian Heinemann—an

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ex-Rocket managing director—has been built on the foundations of many of the lessons from Rocket.

"The model is the same, generally. We support companies in a very operational way," said Mr. Heinemann. Project A likewise provides its companies with the tools and the infrastructure to build a successful online business.

So, for example, he says, the company has an off-the-shelf data warehouse tool. "Ours is built on open-source components so it is cheap, but it still does 80% of what Zalandos does.

"These companies will never be able to build a lot of their own infrastructure. Do you have the right customer relationship management tools? Do you have the right business intelligence tools? We do it for them very early on. It is very capital-efficient."

HitFox is another Berlin accelerator/incubator hybrid with a focus on execution. The company specializes in the niche area of games distribution, matching publishers and games developers (like Electronic Arts EA +2.11% or King.com) on the one hand, "then on the other side," says founder Jan Beckers, "we have relations with over 1,000 media and traffic partners, such as RTL, the largest German TV station. We are in the middle making sure those two find each other."

Simply put, if you are a games maker you want players; if you are a player you want new games. HitFox creates companies that match the two, by identifying gaps in the market where a business opportunity exists and either finding a company that is already in the space, or creating a new company to exploit it, staffing it with high potential outsiders and from within its own staff. It is committed to forming two new companies a year.

But why does HitFox create new companies to exploit these gaps? Why not simply do it itself?

"We could run this as units within HitFox but it is important that we have separate managers, separate teams who have shares in the company, and they can fully focus on doing one thing, and only one thing. That is their motivation. This is the key to success."

All three are different, yet share a similar philosophy, something that is emerging as a particularly German approach—a relentless focus on execution.

HitFox is different to Rocket in that it operates only in the games niche. And unlike Project A it doesn't offer its companies extensive back-end tools, but provides the startups with the relationships for them to exploit.

And while Rocket is a pure incubator, creating companies from its own ranks, both Project A and HitFox are hybrids, in some cases investing in existing companies, in others creating their own.

What all three have done, in differing degrees, is to swap innovation for execution, which should, in theory at least, lower risk and make it quicker to get to market.

All three could also go some way to producing a generation of entrepreneurs skilled in the knowledge of how to build and grow real companies. According to Rocket's Mr. Kudlich the company has "created 5,000 jobs or maybe as many as 8,000 jobs here in Berlin. Also, the people who learned the business in these companies five or six years ago have now launched companies on their own." That is a huge pool to feed Berlin's nascent ecosystem.

Berlin's unofficial motto is "poor, but sexy." Operational excellence isn't perhaps as sexy as creative entrepreneurism, but at the very least, no one will accuse them of being inefficient.

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